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Proposed Tobacco Quota Buyout Legislation: Effects on Tennessee Tobacco Farms[1,2]

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Short Abstract

Interest in a tobacco quota buyout is at an all time high with several tobacco quota buyout and transition bills before Congress. This paper reviews major elements of buyout proposals and estimates the economic impacts of proposed buyout legislation on four representative Tennessee tobacco farms.

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INTRODUCTION

Over the last few years, the U.S. tobacco production industry has experienced a number of problems including lower domestic demand, declining exports, more foreign imports, very high prices relative to world prices, escalating lease rates, rapid movement toward contract marketing, and marketing quotas cut in half. In 2001, a Presidential Commission established to examine challenges facing tobacco growers concluded that the situation tobacco growers are in today has resulted in large part from the confines of the federal tobacco program in place since the 1930s (which, ironically, is the same factor to which most attribute the success and profitability of tobacco crops over the years). The Commission recommended a comprehensive overhaul of tobacco-related policy including replacing the tobacco quota system with a production permit system and compensating quota owners for the loss of quota assets and tobacco growers for costs of transitioning to a new system (a quota buyout) (Commission Report, 2001). As a result, many growers are seeking changes in the program through a quota buyout and transfer program that would compensate quota owners for the lost value of their quota asset while transferring annual rights to grow tobacco to those actually growing the crop.

At the end of the 107th Congress, nine pieces of buyout and transition legislation were on the table that all have some potential to shape the bill that may eventually come to be known as "the" tobacco buyout. Several elements are common among all proposals. They all propose paying quota owners $8 per pound for owned quota and active growers $4 per pound for quota grown. They are all projected to have a total cost between $15 and $20 billion and most propose to pay for the buyout and related programs by imposing a user fee on tobacco manufacturers and

importers. While they all propose similar payment rates for quota owners and growers, they use different bases for making the payments, significantly affecting expected payments for individuals. Some proposals include an additional payment for active tobacco growers who agree to give up future production rights while other proposals reduce the grower payment if the grower decides to remain in tobacco production.

The purpose of this paper is to estimate the economic impacts of the various quota buyout proposals on representative tobacco farms in Tennessee. The financial viability of tobacco farms in the event of a tobacco quota buyout is influenced by a wide variety of connected issues. Buyout simulation includes buyout payments to owners, buyout payments to growers, removal of current Phase II payments to owners and growers, the discontinuance of quota lease cost, and the resulting drop in price received by tobacco farmers. This analysis pulls these multiple changes into a clear, bottom-line picture of the effect on a farm's bottom line. It is helpful to present this information to farmers who will be faced with the decision of whether to remain in tobacco production or invest in something else.

BACKGROUND

The Federal Tobacco Program

Since the 1930s, tobacco production and marketing in the U.S. has been subject to a federal price support and supply control program. The amount of tobacco grown each year is determined by the tobacco marketing quota. The basic quota is calculated each year prior to the start of the production season by a predetermined formula which includes manufacturers' purchase intentions, adjustments for stock levels, and a three year export average. The basic quota is further adjusted by undermarketings or overmarketings from the previous marketing year to determine the effective quota. The amount of tobacco a grower can market through the

auction warehouse system or through private contracts is limited by the effective quota owned or leased by the grower, as quotas are a tradable asset. In Tennessee, tobacco quotas can be leased across county lines.

By design, the tobacco program stabilizes prices by inducing quota volatility. When demand for tobacco declines, prices remain relatively fixed and quota declines to accommodate the shrinking market. The policy of cutting quotas while maintaining relatively stable prices tends to place more of the burden of reduced market demand on growers than on quota owners. As demand shifts downward, quotas decline and price remains relatively fixed. Adjustment in the market comes through the quota rental rate, which increases. Thus, quota owners recover some of the value of lost quota by increasing the value of the remaining quota. The grower leasing a significant portion of the quota he grows bears the brunt of the downward adjustment through higher quota lease rates, though still benefiting from the reduce risk afforded by stable prices.

Tobacco Production in Tennessee

For decades, tobacco has been a significant cash crop in Tennessee, generating nearly a quarter of a billion dollars in cash receipts annually. Tobacco is capable of generating about $2,000 per acre in net income, more than ten times the net income per acre than the second leading crop in the state. Large profit margins in tobacco production are primarily the result of the federal tobacco program, which stabilizes prices through the marketing quota system and a joint producer/industry-funded stock management program. Tobacco production in Tennessee (and throughout the tobacco-growing Southeast) has declined significantly since 1999, with acreage less than half the level three years ago. The reduction in burley tobacco acreage and production in Tennessee has been a direct result of declining tobacco quotas. From 1980 through

1998 burley tobacco basic quota averaged about 600 million pounds. Basic quota was cut by 9.8% in 1998, 28.2% in 1999, and a dramatic 45.3% in 2000. From 1999-2002, basic quota has averaged 339 million pounds, which is 46% less than the average of the last 2 decades. As quota has become constrained, the quota lease rate has soared. In Tennessee, quota lease rates in the range of $0.05 to $0.10 per pound have been common over the last 20 years. Since 1999, rates have risen to well over $0.50 per pound with many leases as high as $0.65 or more per pound. A further major change has been the rapid move away from the auction warehouse marketing system toward direct marketing contracts with manufacturers and leaf dealers. In just three years, well over two thirds of the state's tobacco crop has moved to direct contracting, putting further pressure on the federal tobacco program.

Evolution of Tobacco Buyout Proposals

Interest in a tobacco quota buyout is not a new phenomenon. Serious discussion of a buyout evolved as comprehensive tobacco settlement legislation was being debated in Congress in 1997 and 1998. Several buyout plans were crafted at that time (the three most notable plans were introduced by Senators Ford and Lugar and Representative Robb) for possible insertion into the larger tobacco settlement legislation, commonly called the "McCain Bill". At that time, record level quotas, low quota lease rates, and concern over potential impacts of a possible elimination of the federal tobacco program contributed to mixed support among tobacco farmers. Differing impacts of a buyout by tobacco type (primarily burley and flue-cured) also divided support. The result was an unresolved end to the issue as the larger settlement legislation failed to pass and a subsequent Tobacco Master Settlement Agreement was reached in November 1998.

The country's only experience with a buyout is a small scale buyout of Maryland type 32 tobacco. In 1999, the state of Maryland allocated $78 million over ten years from their share of

expected tobacco settlement payments to a tobacco buyout in the state. Farmers participating in the voluntary buyout program are paid $1 per pound of tobacco quota annually for ten years, based on the average tobacco poundage produced between 1996 and 1998. In exchange for the payments, farmers must agree to permanently quit tobacco production and convert their land to other agricultural uses for at least ten years (Tiller, 2002). Most of Maryland's tobacco producers (representing over 90% of production) are participating in the buyout.

At the end of the 107th Congress in 2002, there were eight pieces of tobacco quota buyout and transition legislation on the table.[4] Major provisions of each of these bills are summarized in table 1. All of these bills, in some shape or form, are expected to be reintroduced in the 108th Congress and thus have some potential to shape the bill that may eventually come to be known as "the" tobacco buyout. Several elements are common among all four bills. They all propose paying quota owners $8 per pound to compensate for elimination of the quota asset. They all propose paying active growers $4 per pound to assist with transitioning to a new tobacco marketing system. They all propose that the payments be spread over five years. None of them have payment limits. They are all projected to have a total cost between $15 and $20 billion. Most propose to pay for the buyout and related programs by imposing a user fee on tobacco manufacturers and importers. It is likely that future projected Phase II payments would be terminated upon passage of any buyout. But there are key differences as well. While they all propose payments of $8/lb for quota owners, they use different bases for making the payments. The same is true for the $4/lb payments to active growers. The Fletcher bill includes an additional payment of $2/lb for active tobacco growers who agree to give up future production

[4] An additional bill was introduced in 2001 by Representative Hill, H.R. 1658. It only addressed burley tobacco and therefore, is not included in the summary table.

rights. The Cleland bill reduces the grower payment from $4/lb to $2/lb if the grower decides to remain in tobacco production. The Fletcher and Cleland bills include options for small quota owners to receive expected total payments in one lump sum instead of spread over 5 years. There are also significant differences regarding the future of a federal tobacco program, if any. Some terminate the existing program while several others replace the current system with a modified system of annual production permits or licenses and maintain some type of minimum price guarantee, generally near the level of the cost of production.

DATA AND METHODS

Representative Tobacco Farms

A set of four representative tobacco farms has been developed typifying tobacco production operations in Tennessee. The representative farms include: (1) TNT123, a 123 acre burley tobacco farm in East Tennessee (Greene County); (2) TNT218, a 218 acre burley tobacco farm in Middle Tennessee (Macon County) producing 18 acres of burley tobacco and 100 acres of hay with 40 head of beef cattle; (3) TNT500, a large 500 acre burley tobacco farm in Middle Tennessee (Macon County) producing 100 acres of burley tobacco and 200 acres of hay with 75 head of beef cattle; and (4) TNT560, a large 560 acre diversified burley and dark-fired tobacco farm in Middle Tennessee (Robertson County) producing 11 acres of burley tobacco, 22 acres of dark-fired tobacco, 124 acres of soybeans, 123 acres of corn, 86 acres of wheat, 70 acres of hay, and 90 head of cattle. Characteristics and descriptive information about each farm is presented in table 1. The farms were designed to represent a typical operation in each region. The representative farms were built from detailed farm data (including enterprise, operations, costs, finances, machinery, marketing, management, etc.) collected from producer panels using a consensus method. Panelists review and verify input data and simulation output to ensure that the

representative farm model is performing in a manner consistent with conditions in that region. Farms are generally representative of moderate size full-time farm operations in the area. A second Macon County tobacco farm is included representing farms two to three times larger. Three of the representative tobacco farms – TNT123, TNT218, TNT560 – were created in 1998 and updated in 2002. The larger Macon County tobacco farm, TNT500, was created in 2002.

Representative farms are simulated using the stochastic FLIPSIM (Farm-Level Policy Simulation Model) model and baseline agricultural and economic projections from the Food, Agricultural and Policy Research Institute (FAPRI). The research uses a whole farm analysis approach to evaluate the financial outlook and stability of the tobacco farms under a baseline scenario (continuation of the status quo) as compared to an alternative tobacco quota buyout and transition scenario.

Representative Tobacco Farms Baseline

The baseline scenario incorporates the FAPRI November 2002 Baseline which provides projected national annual prices, policy variables, and input inflation rates. A number of assumptions about the farms have been made to facilitate comparison of performance. It is assumed that each farm had an initial long-term and intermediate-term debt level of 20% the first year of the simulation. Moving forward, a farm's debt level may improve or deteriorate depending on the farm's performance over time. The simulation assumes that each farm begins the simulation period with no cash reserves. Operating expenses are financed with borrowed operating capital in the first simulation year (2001) and from cash reserves and/or additional short-term operating loans in subsequent years. Basic multi-peril crop insurance (MPCI) coverage is maintained at 100% price and 65% yield protection over the baseline period. No off-farm income is included in the simulations for any farm, including family employment. Thus, the

performance of the farm reflects on the ability of the farm to provide for family living, pay taxes, pay down principal on loans, and replace machinery and capital.

Phase II payments (direct payments negotiated in 1999 in the National Tobacco Growers Settlement Trust following the Master Tobacco Settlement Agreement) are paid at their actual level in 2001 and 2002. Phase II payments after 2002 are projected according to the Phase II projection schedule. A further assumption is that burley basic quota stabilizes around the 350 million pounds per year level, meaning that each farm's basic quota remains constant at the 2002 level. Further, as basic quota stabilizes, it is assumed that quota lease rates stabilize near their 2002 level, increasing slightly by the rate of inflation. All four of the representative farms contract directly with manufacturers for the marketing of their leaf tobacco. Prices are projected to increase modestly over the simulation period according to each farm's historical price trend. Annual summary data from the baseline simulation for each farm are presented in table 3. Average annual projections for NCFI for each farm are shown in figure 1.

Greene County Moderate Burley Tobacco Farm, TNT123. Under the baseline, this moderate size East Tennessee tobacco farm experiences net cash farm income (NCFI) ranging from $10,719 in 2001 to $45,339 in 2008. NCFI then falls in the last two simulation years, primarily because the Phase II payment amount is projected to decrease. Total cash outflows includes family living expenses, principal payments, income and self-employment taxes, and machinery and capital replacement costs and must be paid from NCFI. This farm has a 99% probability of a cash flow deficit in 2002 and continues to have a high probability of not meeting minimum cash needs each year of the simulation. The farm faces a significant probability of having to refinance their operating debt beginning in 2002. The farm begins to have a fairly significant probability of

losing real net worth (45%) by 2003, which is maintained through 2010. Under the continuation of the status quo, this farm faces serious financial difficulty.

Macon County Moderate Burley Tobacco Farm, TNT218. Under the baseline, this moderate size Middle Tennessee tobacco farm experiences net cash farm income ranging from $29,638 in 2001 to $57,333 by 2008 before falling in 2009 and 2010 due to an expected reduction in Phase II payments. The level of minimum cash required to be paid from NCFI is sufficiently high that the farm experiences well over a 50% probability of a cash flow deficit in all simulation years, although the probabilities are slightly lower than for the moderate Greene County farm. The most serious threat of losing real net worth occurs in 2004 with a 28% probability, declining to under 20% after 2005. While this farm is on more solid financial footing that the moderate Greene County farm, they are still facing serious financial difficulty over the next few years.

Macon County Large Burley Tobacco Farm, TNT500. Under the baseline, this large Macon County farm has NCFI ranging from $75,591 in 2002 to $118,018 in 2010. The sharp drop in NCFI in 2002 is primarily the result of a return to trend yields in 2002 after experiencing very good yields in 2001. While the farm's average NCFI each year is projected to be well above the level of cash required to meet cash needs for family living, taxes, principal payments, and machinery replacement, the incorporation of yield and price risk indicates that the farm still experiences approximately a 50% probability of a cash flow deficit averaged over the simulation period. This farm faces about a 20% to 23% probability of experiencing declining real net worth after 2004.

Rutherford County Moderate Mixed Tobacco Farm, TNT560. Under the baseline, this large Robertson County diversified farm with burley and dark-fired tobacco has NCFI ranging from $173,966 in 2002 to $198,794 in 2005. After experiencing exceptional yields in 2001 across all

crops produced, 2002 shows a drop in NCFI which is attributed to the return to trend yields (2,700 lb/acre for both burley and dark-fired in 2002). Because of the wide diversity of crops, this farm's income remains more stable, and changes in the tobacco program and marketing have relatively less impact at the whole farm level. This farm is the most profitable and economically stable of the farms in the set. New government program provisions established in the 2002 Farm Bill increase the level of government payments for this farm, further enhancing its financial position. This farm has virtually no probability of experiencing cash flow deficits or declining real net worth over the simulation period.

Tobacco Quota Buyout Scenario

The simulated baseline for each representative tobacco farm is then compared to a simulation of a tobacco quota buyout scenario. As previously noted, there are a number of alternative legislative proposals for a quota buyout. Space constraints prevent an examination of subtle differences in payment bases among the various proposals. Instead, the buyout scenario analyzed includes provisions that are common among most of the proposals or have the strongest political support at the time the research was conducted. The buyout scenario analyzed includes (1) payment of $8 per pound for average quota owned over the 1998-2000 period paid over five years beginning in 2003, (2) payment of $4 per pound for quota grown in the 2001 marketing year (average of effective quota and marketings) paid over five years beginning in 2003, and (3) elimination of Phase II tobacco settlement payments beginning in 2003. With changes in the tobacco program proposed in the legislation, price is expected to decline, although there is no empirical data to allow estimation of the size of the decline. In the simulation, it is assumed that price declines by $0.50 from the annual baseline projected price beginning in 2003. Recent testimony given by agricultural economists at a congressional hearing held to solicit input

regarding a potential tobacco quota buyout suggests that this level of price decline is well within the expected range.

FINDINGS

Annual summary data from the tobacco quota buyout simulation for each farm are presented in table 3. Average annual projections for NCFI for each farm are shown in the right panel of figure 2. The median projected NCFI under the tobacco quota buyout scenario along with the 25th and 75th percentiles and the 5th and 95th percentiles are presented for each farm in figure 3. As expected, NCFI is increased significantly for each of the four farms during the five years over which the buyout payments are made, 2003-2007. Following the quota buyout period, NCFI drops sharply for each farm, well below the projected level under the baseline scenario. Several factors contribute to these results. Total expenses are reduced beginning in 2003 as quota lease costs are eliminated from variable crop production costs. Total receipts, however, are also reduced significantly beginning in 2003 as the contract price for tobacco is simulated to fall by $0.50 per pound compared to the baseline projected prices. These somewhat offsetting effects are eclipsed during the 2003-2007 period by the influx of quota compensation and grower transition payments, resulting in NCFI that is significantly higher over the buyout years.

Greene County Moderate Burley Tobacco Farm, TNT123. This farm generates an additional $47,902 in NCFI in the first year of the buyout simulation, 2003, compared to the previous year of the simulation. Projected NCFI remains relatively constant throughout the buyout period, trending slightly upward as prices are projected to increase slightly, before declining sharply by more than $74,000 in the first year after they buyout period and remaining negative. This farm owns less than 10% of the quota they grow so eliminating the cost of leasing quota plus the compensation payments has a large impact during the buyout years. Despite the reduced

production expenses, the lower priced tobacco they market after they buyout period is not sufficient to cover even variable cash costs. The result is that after the buyout payment period, the farm returns to levels of probability of a cash flow deficit and losing real net worth that are near or even greater than the levels experienced under the baseline simulation. Even with a tobacco quota buyout, this farm remains under very serious financial stress.

Macon County Moderate Burley Tobacco Farm, TNT218. This farm generates an additional $29,902 in NCFI in the first year of the buyout simulation compared to the previous year. Projected NCFI remains relatively constant throughout the buyout period, trending slightly upward before declining sharply by nearly $37,000 in 2008. The farm owns only 7% of the quota they grow and pays a higher lease rate than the TNT123 farm, thus the benefits of eliminating quota lease costs are large, although not large enough to offset the negative impacts of the $0.50/lb price reduction that also accompanies they buyout. This farm has a lower probability of a cash flow deficit than in the baseline scenario during the buyout years, 2003-2007, but a higher probability after the end of the buyout period. However, the risk of declining real net worth is significantly reduced for the farm in all years of the buyout scenario. While the farm's financial condition overall improves under the buyout scenario, the farm should carefully weigh the financial risks of continuing tobacco production after a buyout.

Macon County Large Burley Tobacco Farm, TNT500. In the first year of the buyout, this farm increases NCFI by $152,236, the largest increase of all four farms. While the farm experiences the largest NCFI benefit during the buyout period, they also experience the largest NCFI decline after the buyout period, a reduction of $213,018 in 2008. This result is related to the size of the burley enterprise on the farm, marketing 195,000 pounds per year on average. Because the farm must lease such a large quantity of burley quota, they benefit greatly from eliminating quota

lease costs, and further benefit from quota compensation payments. However, the decline in the market price also has a significant negative effect on the farm's bottom line. The farm also has the largest livestock enterprise among the four farms, partially offsetting some of the tobacco income losses. Overall, the buyout is a net positive for this farm, sharply reducing their probability of a cash flow deficit and reducing their probability of losing real net worth to a negligible amount.

Robertson County Mixed Tobacco Farm, TNT560. This farm generates an additional $84,180 in NCFI in the first year of the buyout simulation, 2003, compared to the previous year of the simulation. Projected NCFI remains relatively constant throughout the buyout period before declining by more than $50,000 in the first year after they buyout period to $133,498. This farm owns 25% of the burley quota they grow and 50% of the dark-fired quota they grow, so the marginal benefit of reduced production costs is lower for this farm compared to the other farms. The higher quota ownership percentage also means that the farm benefits relatively more from the quota loss compensation payments during the buyout period. The range of other crop commodities produced on this farm also helps stabilize projected income despite tobacco program and marketing changes. New counter-cyclical program payments under the 2002 farm bill and the opportunity to update crop acreages and program yields plus program crop treatment for soybeans all benefit this farm. The farm also has a relatively high average burley yield, which increases their profitability. The result is that this farm which was highly profitable even in the baseline scenario is even more profitable during the buyout period. After the buyout payment period, however, NCFI for the farm declines to below the projected level under the baseline and the probability that the farm will experience a cash flow deficit increases slightly in the last two years of the buyout simulation.

SUMMARY & DISCUSSION

Of the four farms, the smaller two are not financially stable under the baseline scenario. The smaller two farms have net cash farm incomes (NCFI) ranging from just over $10,000 to just under $60,000 for the 10 year analysis period. However, NCFI has to cover family living withdrawals, taxes, principal payments on land and machinery, and machinery replacement and the two smaller farms both experience a high probability of a cash flow deficit in the baseline projections. The larger two farms have NCFI ranging from $75,000 to near $200,000 each year of the baseline analysis and are better able to cash flow and increase real net worth over the period. The diversified farm is in the strongest financial position under the baseline scenario.

During the five year buyout period, each farm experiences considerably higher NCFI, with the two larger farms experiencing the largest gains. After the buyout period, with lower tobacco prices expected without Phase II payments, NCFI drops sharply for all four farms. In the post-buyout period, the two smaller farms are not financially viable producing tobacco. The two larger farms see NCFI drop below the baseline scenario but remain financially viable, especially the more diversified farm which remains highly profitable.

While grower interest in a tobacco quota buyout is at an all-time high, achieving a tobacco quota buyout legislatively remains a significant political challenge. The impacts of a potential buyout on a wide variety of stakeholders, often with competing interests in the issue, will have to be considered as the process moves forward. Some have suggested that the peanut quota buyout included in the 2002 Farm Bill may set precedent for tobacco and indicate a shifting mood in Washington more favorable to a tobacco quota buyout. However, budget constraints and other pressing issues such as homeland security and the war on terrorism are continuing to overshadow the tobacco issue. It is likely that legislative consideration of a tobacco

quota buyout would be coupled with consideration of U.S. Food and Drug Administration (FDA) authority over the manufacture and marketing of tobacco products (i.e., cigarettes) to broaden support beyond the relatively few tobacco-growing states. While accomplishing a tobacco buyout remains a very challenging political issue, research such as this provides valuable information to tobacco producers, agricultural leaders, Congressional staffers, and other groups with a significant stake in the outcome.

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Table 1. Summary of tobacco quota buyout and transition bills in the 107th Congress.

Bill Number Sponsor	HR-5035 Fletcher	S-2706 Cleland	HR-4753 Goode	HR-3940 - - S-2764 McIntyre - - Miller	S-3004 - - HR-5480 Helms - - Chambliss	S-2995 Hollings
Bill Title	Tobacco Equity Elimination Act of 2002	Aid to Tobacco-Dependent Communities Act of 2002	Tobacco Market Transition Act of 2002	Tobacco Livelihood and Economic Assistance for our Farmers (LEAF) Act of 2002	Rural Community Revitilization and Transition Act	Tobacco-Dependent Communities Assistance Act of 2002
Introduced	June 28, 2002	June 28, 2002	May 16, 2002	March 12, 2002 - - July 19, 2002	Sept. 25, 2002 - - Sept. 26, 2002	September 24, 2002
Quota Buyout						
Eligibility	Quota owners on July 1, 2002	Quota owners on January 1, 2002	Quota owners on July 1, 2002	Quota owners on January 1, 2002	Quota owners for 2002 crop year	Quota owners on July 1, 2002
Payment Rate	$8/lb	$8/lb	$8/lb	$8/lb	$8/lb	$8/lb
Payment Base	*Total* available will be based on 1998 basic quota times $8/lb. Payments based on share of 2002 national basic quota owned.	Average basic quota owned 1997-1999	Either 2002 basic quota owned or average of basic quota owned 1997-1999	1998 basic quota owned	Quota owned in 2002 crop year multiplied by the ratio of 1998 national quota to 2002 national quota	Average of basic marketing quota established for 1997-1999 marketing years
Grower Compensation						
Eligibility	Active grower during 2002 crop year	Active grower during 2001 crop year plus any one of the 1998-2000 crop years	Active grower during 2001 or 2002 crop years	Active grower during 2001 crop year	Active grower during 2002 crop year	Active grower as of July 1, 2002
Payment Rate	$4/lb + $2/lb if grower gives up future production rights	$4/lb if grower gives up future production rights or $2/lb if grower obtains future production permit	$4/lb	$4/lb	$4/lb	$4/lb
Payment Base	*Total* available based on 1998 mktg. quota times $4/lb. Payments based on share of nat'l avg. of effective quota and marketings for 2001 and 2002.	Average of 1997-1999 marketing quota	Choose either 2001 or 2002 marketings	2001 marketings	Farm marketing quota for 2001	Average of 1997-1999 marketing quota
Payment Limits	None	None	None	None	None	None
Payment Timing	5 equal annual payments, 2003-2007 (quota owners with less than 1,000 lbs who give up future production rights may receive total compensation in 2003)	5 equal annual payments, 2004-2008 (quota owners with less than 1,000 lbs who give up future production rights may receive total compensation in 2003)	5 equal annual payments, 2002-2006	5 equal annual payments, 2003-2007	Quota owner/grower may choose between 5 equal payments, 2003-3007 or a lump sum payment in 2003	5 equal annual payments, 2004-2008 (quota owners with less than 1,000 lbs or those exiting production may receive total compensation in 2004)
Tobacco Program	Modified to system of annual production licenses. Maintains minimum support price based on cost of production. Grower cooperatives provide guaranteed market. No-net assessments continued.	Modified to system of annual production permits. Maintains minimum support price based on cost of production. Grower cooperatives provide guaranteed market. No-net assessments continued. Permit program referendum required every 3 years.	Replaces program with a production license and minimum price guarantee program administered by a federally chartered corporation. No-net assessments continued.	Terminates existing federal tobacco program. Includes provisions that attempt to maintain production in traditional regions.	Includes provisions that attempt to maintain production in traditional regions. Includes price-support provisions based on the cost of production	Modified to system of annual production licenses. Maintains minimum support price based on cost of production. Grower cooperatives provide guaranteed market. No-net assessments continued.
Other Provisions	Establishes a Center for Tobacco-Dependent Communities for rural development assistance and funding.	Establishes a Center for Tobacco-Dependent Communities for rural development assistance and funding.	Allows consideration of payments to others adversely affected by elimination of the tobacco program (e.g., graders, warehousemen, equipment dealers, etc.)	Grants FDA the authority to regulate the manufacture, marketing, packaging, and labeling of tobacco products	All payments are eligible for capital gains treatment. Creates a Center for Agricultural Innovation, as well as a Tobacco Advisory Board	Payments to those who discontinue tobacco production are eligible to be invested in tax-deferred savings accounts.Includes provisions for displaced tobacco workers, scholarships for farm families, economic development $.
Expected Cost	$18-$19 billion	$15-$16 billion	$17-$18 billion	$15-$16 billion	(not yet available)	$15-$20 billion
Funding Source	User fee on tobacco manufacturers and importers. Fees terminated after obligations of the bill are met.	User fee on tobacco manufacturers and importers	Trust Fund created with existing No-Net-Cost funds and other funds yet-to-be-determined	User fee on tobacco manufacturers & importers. 85% for buyout, 15% for FDA regulation.	Assessments paid by tobacco producer, purchaser, and seller.	Assessments paid by tobacco manufacturers & importers based on their respective share of the market.

Table 2. Summary of representative tobacco farm characteristics.

	TNT123	TNT218	TNT500	TNT560
County	Greene	Macon	Macon	Robertson
Size Classification	Moderate	Moderate	Large	Large
Total Cropland	63	118	300	280
Acres Owned	38	105	105	80
Acres Leased	25	13	195	200
Total Pastureland	60	100	200	280
Acres Owned	60	95	70	80
Acres Leased	0	5	130	200
Cattle (no. of head)	30	30	90	40
2001 Planted Acres				
Burley Tobacco	40	18	100	11
Dark-fired Tobacco	-	-	-	22
Hay	23	100	200	70
Pasture	60	100	200	210
Corn	-	-	-	123
Soybeans	-	-	-	124
Wheat (double-cropped)	-	-	-	86
Avg. Burley Marketings (lbs)	80,000	41,400	195,000	29,700
Avg. Dark-Fired Marketings (ac)	-	-	-	22
Burley Quota Owned (lbs)	7,500	3,000	39,000	7,425
Dark-Fired Quota Owned (ac)	-	-	-	11
Burley Quota Leased (lbs)	72,500	38,400	156,000	22,275
Dark-Fired Quota Leased (ac)	-	-	-	11
Burley Quota Lease Rate (per lb)	$0.55	$0.65	$0.63	$0.60
Dark-Fired Quota Lease Rate (per ac)	-	-	-	$1,600
Selected Burley Cash Expenses (per ac)				
Transplants	$250	$287	$164	$280
Fertilizer	$150	$163	$275	$220
Herbicides/Fungicides	$209	$178	$141	$150
Insecticides	$114	$92	$60	$120
Average Burley Yield (lbs)	2,000	2,300	1,950	2,700
Average Dark-Fired Yield (lbs)	-	-	-	2,700

Table 3. Baseline and tobacco quota buyout simulation results.

	Baseline Scenario					Tobacco Quota Buyout ($0.50/lb) Scenario			
	TNT123	TNT218	TNT500	TNT560		TNT123	TNT218	TNT500	TNT560
Total Cash Receipts					Total Cash Receipts				
2001	202,179	118,306	514,606	398,403	2001	202,179	118,306	514,606	398,403
2002	203,980	121,936	447,697	374,856	2002	203,980	121,936	503,272	374,856
2003	222,727	131,655	460,950	389,156	2003	215,778	126,715	562,857	428,741
2004	229,017	136,411	474,360	395,389	2004	219,936	130,371	574,085	436,322
2005	238,706	140,976	487,387	405,106	2005	224,364	132,215	585,135	440,859
2006	243,307	143,387	497,445	405,354	2006	227,647	133,945	593,432	439,722
2007	248,256	144,629	508,317	406,453	2007	231,257	134,495	602,517	439,405
2008	253,580	147,713	520,109	410,006	2008	159,224	98,957	394,095	310,711
2009	239,316	139,436	524,689	393,309	2009	163,302	100,146	404,346	313,628
2010	244,672	142,571	538,600	397,412	2010	167,548	102,707	416,500	316,993
Total Cash Expenses					Total Cash Expenses				
2001	191,460	88,668	399,585	207,764	2001	191,445	88,686	399,585	207,764
2002	185,874	86,518	372,106	200,889	2002	185,919	86,518	372,106	200,629
2003	190,817	87,052	380,187	202,717	2003	149,815	61,396	279,457	170,334
2004	193,834	88,468	386,639	204,695	2004	151,804	62,216	282,683	172,418
2005	197,661	87,809	391,756	206,312	2005	154,598	60,986	284,812	173,499
2006	200,712	89,545	397,347	207,874	2006	156,647	62,179	288,355	174,510
2007	203,911	88,523	402,376	209,791	2007	158,939	60,379	291,588	175,855
2008	208,242	90,379	409,361	211,752	2008	162,057	61,711	296,184	177,213
2009	212,318	90,414	414,992	213,388	2009	166,105	61,444	300,101	178,219
2010	216,294	91,469	420,582	216,880	2010	169,825	62,143	304,130	181,055
Net Cash Farm Income					Net Cash Farm Income				
2001	10,719	29,638	115,021	190,639	2001	10,734	29,620	115,021	190,639
2002	18,106	35,418	75,591	173,966	2002	18,061	35,417	131,166	174,227
2003	31,909	44,603	80,763	186,439	2003	65,963	65,319	283,401	258,407
2004	35,182	47,943	87,721	190,694	2004	68,132	68,154	291,402	263,903
2005	41,045	53,167	95,630	198,794	2005	69,766	71,229	300,323	267,360
2006	42,596	53,842	100,098	197,480	2006	71,000	71,765	305,077	265,212
2007	44,344	56,106	105,941	196,662	2007	72,318	74,116	310,929	263,550
2008	45,339	57,333	110,748	198,254	2008	-2,833	37,246	97,911	133,498
2009	26,998	49,023	109,697	179,921	2009	-2,803	38,702	104,245	135,409
2010	28,378	51,102	118,018	180,532	2010	-2,277	40,564	112,370	135,937
Total Cash Outflows					Total Cash Outflows				
2001	38,871	40,450	72,788	90,172	2001	38,867	40,451	72,788	90,172
2002	56,682	47,213	65,879	96,153	2002	56,675	47,232	82,886	96,232
2003	69,849	52,890	66,588	101,069	2003	83,585	61,642	138,539	128,181
2004	74,579	54,482	78,284	110,466	2004	67,611	53,221	168,438	138,836
2005	80,176	53,330	90,973	121,777	2005	48,152	54,367	184,171	150,689
2006	82,636	43,543	88,989	112,902	2006	52,900	51,393	181,231	139,201
2007	85,211	49,665	92,467	114,387	2007	54,547	55,328	184,999	140,335
2008	82,433	49,372	91,876	116,487	2008	36,417	39,610	92,399	89,756
2009	78,373	45,148	89,695	107,975	2009	37,270	47,039	88,121	88,799
2010	87,164	51,639	97,965	123,460	2010	56,376	46,596	97,248	103,204
Probability of a Cash Flow Deficit (%)					Probability of a Cash Flow Deficit (%)				
2001	0	0	0	0	2001	0	0	0	0
2002	99	99	1	1	2002	99	99	1	1
2003	83	68	40	1	2003	69	45	6	1
2004	77	61	49	1	2004	54	38	9	1
2005	78	63	53	1	2005	51	27	8	1
2006	74	55	56	1	2006	47	24	8	1
2007	75	56	52	1	2007	45	22	9	1
2008	67	50	47	1	2008	80	56	41	1
2009	77	57	53	1	2009	84	63	39	2
2010	80	63	55	1	2010	80	66	39	5
Probability of Losing Real Net Worth (%)					Probability of Losing Real Net Worth (%)				
2001	0	0	0	0	2001	0	0	0	0
2002	1	1	1	1	2002	1	1	1	1
2003	45	26	38	1	2003	28	7	3	1
2004	47	28	41	1	2004	26	4	3	1
2005	47	23	23	1	2005	20	2	1	1
2006	45	17	22	1	2006	18	1	1	1
2007	45	12	20	1	2007	13	1	1	1
2008	41	13	22	1	2008	20	1	1	1
2009	48	17	21	1	2009	34	4	1	1
2010	47	18	22	1	2010	47	5	1	1

Figure 1. Baseline net cash farm income for four Tennessee representative tobacco farms.

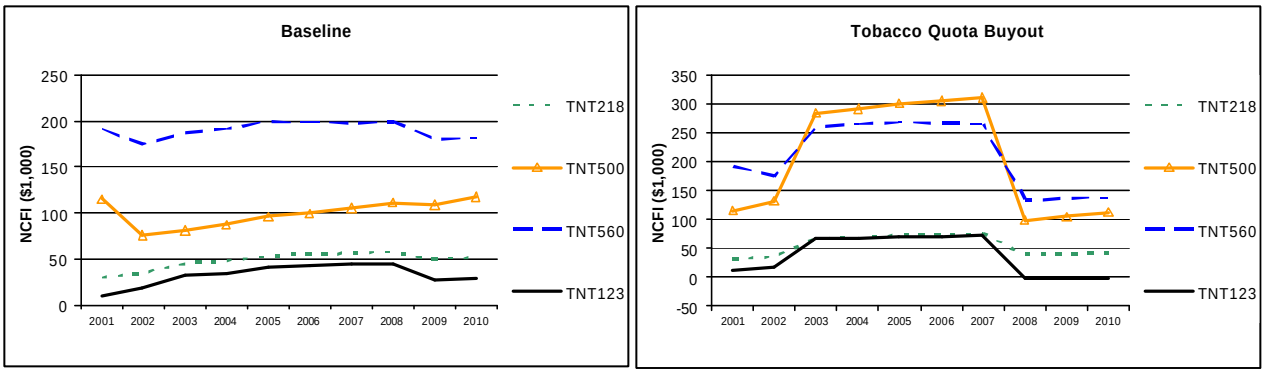

Figure 2. Tobacco quota buyout simulation NCFI and selected probabilities for four Tennessee representative tobacco farms.